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SUBJECT: 7.5 billion euro assistance package to Latvia announced

¶1. A December 19th statement by the French EU Presidency and the European Commission on the medium-term financial assistance to Latvia for the first time made public the amount and sources of the planned international financial assistance package to Latvia. The package is intended to total EUR 7.5 billion through the first quarter of 2011. The European Union plans to provide the majority of the funds (EUR 3.1 billion), followed by the Nordic countries of Sweden, Denmark, Finland and Norway (EUR 1.8 billion), the International Monetary Fund (EUR 1.7 billion), the European Bank of Reconstruction and Development, the Czech Republic, Poland, and Estonia (EUR 0.5 billion), and the World Bank (EUR 0.4 billion).

¶3. The statement stresses the conditionality of the assistance funds to the implementation of a comprehensive economic reform and restructuring program. It also highlights the fact that the European Commission and the ECOFIN may impose additional requirements and conditions as it monitors the situation and follows the implementation procedure. The central element of the program will be maintaining the existing currency peg.

¶4. The news of the loan amount was received in Latvia with little surprise. Officials had previously indicated that the government will need at least EUR 1.9 billion to cover budget deficits in the upcoming years, EUR 0.9 billion to restructure government debt, possibly another billion Euros to prop up the troubled Parex bank, and significant additional amounts to promote economic activity, and raise competitiveness. News that devaluation of the Lat is currently off the table, come as great relief for most of the Latvian public.

Rogers